

POLICY INITIATIVES OF PRESIDENT TRUMP'S CABINET:

A PERSPECTIVE ON HOUSING POLICY

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The Trump Administration is in its second year, and extensive changes are being made by both the White House and the major agencies. Every month for your background information, we are issuing a special report on one area of change. Here is the eighth report, this one on the Department of Housing and Urban Development.

It has been 10 years since the 2008 financial crisis and the federal bailouts of Fannie Mae and Freddie Mac. The question now is, how is the housing market doing and how are federal policies affecting the market?

Americans are slowly beginning to renew their love affair with home ownership, but the market has not completely returned to pre-2008 levels despite a long period of low mortgage rates. A major factor is that both first-time homebuyers and those who want to upgrade to more expensive homes face affordability problems. Although the cost of high-end housing has eased in some areas, home prices in states such as Florida, California and Colorado are soaring. And the cost of starter homes is now out of reach for many low-income families.

In some large cities, low-income families are paying as much as 70 percent of their incomes for either mortgages or rent. In 2017, the number of homeless Americans – half of them children – jumped for the first time in seven years. In the period 2000-2015, rents increased an average of one-third. Three out of every four applications for Section 8 federal housing vouchers are denied.

Yet another factor is the changing regulatory framework for low-income housing. On the one hand, Congress overrode the White House to add \$1.25 billion to the Department of Housing and Urban Development's budget for rental assistance and \$425 million to help states build affordable housing. On the other, a \$200 million plan to increase affordable housing has been whittled down to 1,000 new units in 32 states paid for from the profits of Fannie Mae and Freddie Mac.

Last spring HUD Secretary Ben Carson signaled a new approach to federally controlled housing. To open up the system to new people, he proposed that rents triple for more than 700,000 long-term public housing tenants and that rent caps be relaxed for another 4.5 million tenants.

A suit alleging that Dr. Carson was weakening enforcement of fair housing laws was filed in federal court. The department responded that it had proposed doubling or tripling rents only on work-able individuals who are paying the minimum rent of \$25 to \$50 per month and that the proposed policy excluded the elderly and the disabled. The department further argued that this was being done at a time when more jobs and job-training programs are available and that there could not be a better time to move people into the workforce. The court dismissed the lawsuit.

The Secretary says his hope is that the private market will move in to meet the increased demand for housing, and that low-income families will be motivated to do more to help themselves. Dr. Carson is an up-by-the-bootstraps conservative who argues that government subsidies reduce the will to get out of poverty. He calls for breaking the cycle of dependency and worries that one generation after another languishes in public housing. He also opposes the extension of certain tax credits designed to help the poor afford housing. His position is that he is not opposed to tax credit programs that aid the poor, but wants to modify the way such programs are used so that they contribute rather than detract from the ability to achieve self-sufficiency.

That is in keeping with the new philosophy at HUD that concentrates on people rather than on buildings and programs. Success, in Dr. Carson's view, is defined by how many people are moved out of dependency and into positive economic situations. HUD says it is working with all other federal agencies as well as state and local agencies, nonprofits, the private sector and faith-based organizations to provide the kind of wrap-around services that will facilitate the climb from dependency to self sufficiency.

In terms of housing production, HUD is reworking the fair housing law, calling for comments on changes that are intended to minimize regulatory burdens, advance local control over the process and "encourage actions that increase housing choice, including through greater housing supply." Some Republicans applaud the effort to reduce onerous reporting requirements; others want what is known as the "Affirmatively Furthering Fair Housing" rule off the books entirely. Most Democrats want it more rigorously enforced.

While Dr. Carson has conceded that many Americans pay more than half their income for shelter, he argues that the emphasis should be on pushing state and local governments to remove zoning and land-use barriers to housing construction. He has said frequently that he wants to encourage the development of mixed-income multi-family dwellings “all over the place.”

Whether it is in response to new federal policies or other factors is impossible to tell just yet, but the Census Bureau reports that new housing completions are running at a seasonally adjusted rate that is about 11 percent higher than a year ago and new housing starts are about 9 percent higher year over year. Then again, applications for building permits are about 5.5 percent below a year ago.

In another significant change in federal housing policy, last year the Treasury Department guaranteed 70 percent of all new mortgage lending, mainly through Fannie Mae and Freddie Mac. That provides an important stimulus for the housing market. But it also means taxpayer exposure in another market collapse is great.

Fannie and Freddie are under federal conservatorship, and both are in need of funds. But Treasury controls their profits now, leaving them without a financial buffer. Once again, if there should be a housing downturn, taxpayers could be left holding the bag.

Ten years after the financial collapse, there is general agreement that the problems that caused it have not been fixed. Millions are not able to move beyond a starter house. And millions more are struggling to keep a roof over their heads.